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STATE OF MONTANA

Report to the Legislature

MONTANA HISTORICAL SOCIETY

Report on the Examination
of the Financial Statements
Two Fiscal Years Ended June 30, 1982

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STATE OF MONTANA

Report to the Legislature

MONTANA HISTORICAL SOCIETY

Report on the Examination
of the Financial Statements
Two Fiscal Years Ended June 30, 1982

82-9

Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

TABLE OF CONTENTS

	Page
Appointive and Administrative Officials	iii
Summary of Recommendations	iv
Introduction	1
Background	1
Centralizing Deposits	2
Merchandising Program	3
Museum Security	5
Accounting Issues	6
Inter-Entity Loans	6
Unrecorded Activity	8
Leave Time	9
Federal Compliance	10
Indirect Cost Reimbursement	11
Internal Control	12
Revenue	13
Prior Audit Recommendations	15
Auditor's Report and Financial Statements	
Auditor's Report	16
Combined Balance Sheet - All Funds and Account Groups, June 30, 1982	18
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds for Fiscal Year Ended June 30, 1982	19
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds for Fiscal Year Ended June 30, 1981	20

TABLE OF CONTENTS (Continued)

	Page
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balance - All Proprietary Fund Types for Fiscal Year Ended June 30, 1982	21
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balance - All Proprietary Fund Types for Fiscal Year Ended June 30, 1981	22
Combined Statement of Changes in Financial Position - All Proprietary Fund Types and Similar Trust Funds for Fiscal Year Ended June 30, 1982	23
Combined Statement of Changes in Financial Position - All Proprietary Fund Types for Fiscal Year Ended June 30, 1981	24
Notes to the Financial Statements	25
Schedule of Federal Grant Receipts	31
Agency Response	33

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

MONTANA HISTORICAL SOCIETY BOARD OF TRUSTEES

		Term Expires July 1 of
Manson Bailey, Jr.	Glasgow	1983
George W. O'Connor*	Butte	1983
Dee C. Taylor	Missoula	1983
William Mackay*	Roscoe	1984
Randall Swanberg	Great Falls	1984
Wilbur P. Werner*	Cut Bank	1984
Jay Contway*	Great Falls	1985
Mrs. Louis W. Hagener	Havre	1985
James W. Reger	Billings	1985
Bruce Ennis*	Billings	1986
Mrs. Walter Marshall	Helena	1986
Dale McGarvey	Kalispell	1986
Mrs. Charles Bovey	Great Falls	1987
Michael P. Malone	Bozeman	1987
Eric J. Myhre*	Helena	1987

*Denotes Executive Committee

MONTANA HISTORICAL SOCIETY

Dr. Robert Archibald	Director
Linda Gamble	Business Manager

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Montana Historical Society is included in the back of this report.

		Page
1A	Centralize the cash deposit function for all programs.	3
	Agency Reply: Concur. See page 33.	
1B	Deposit collections in compliance with state law.	3
	Agency Reply: Concur. See page 33.	
2	Develop procedures to ensure the merchandising program operates on a break-even basis.	5
	Agency Reply: Concur. See page 33.	
3A	Develop and maintain a formal security manual.	6
	Agency Reply: Concur. See page 33.	
3B	Staff security guards to enhance physical security of museum collections.	6
	Agency Reply: Concur. See page 34.	
4	Properly record inter-entity loans.	8
	Agency Reply: Concur. See page 34.	
5	Recognize all activity on the accounting records.	8
	Agency Reply: Concur. See page 34.	
6A	Grant compensatory time only to eligible employees as defined by state law.	10
	Agency Reply: Concur. See page 34.	

		Page
6B	Record compensatory time, vacation and sick leave credits in accordance with state law.	10

Agency Reply: Concur. See page 34.

7A	Seek approval of an indirect cost plan.	11

Agency Reply: Concur. See page 34.

7B	Recover applicable indirect costs in accordance with state law.	11

Agency Reply: Concur. See page 34.

8	Implement procedures to correct the internal control weaknesses noted above.	14

Agency Reply: Concur. See page 34.

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INTRODUCTION

We performed a financial/compliance audit of the Montana Historical Society for the two fiscal years ending June 30, 1982. The objectives of the audit were to: (1) express an opinion on the Society's financial statements for the two fiscal years ending June 30, 1982; (2) determine if the Society complied with applicable laws and regulations; and (3) make recommendations for improvement in the management and internal controls of the Society.

In accordance with Section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the director and his staff for the cooperation and assistance received during our audit.

BACKGROUND

The Montana Historical Society was established in 1865 by the Territorial Legislature. The law authorizing the Society states it is, ". . . an agency of state government for the use, learning, culture and enjoyment of the citizens of the state and for the acquisition, preservation and protection of historical records, art archival and museum objects, historical places, sites and monuments and the custody, maintenance and operation of the historical library, museums, art galleries, and historical places, sites and monuments."

The administration of the Society is vested in a board of fifteen trustees appointed by the Governor with the consent of the Senate. The Society director is responsible for the immediate

direction, management, and control of the Society. The Society operated nine major programs during our audit period:

1. Administration
2. Archives
3. Library
4. Merchandising
5. Museum
6. Publications
7. State Historic Preservation
8. Libby Dam*
9. Education**

*Contract with Army Corps of Engineers was not renewed in fiscal year 1981-82.

**Established during fiscal year 1981-82.

A separate audit report was issued by our office for the grant from the Corps of Engineers administered by the Society.

CENTRALIZING DEPOSITS

The Society receives money daily for the various programs. An administrative aide records collections by program in the collection log. The aide segregates the money received by program and places it in the vault. Personnel in each program determine the disposition of the money. Individuals in the administration program prepare collection reports and deposit the money periodically. The business manager approves all collection reports.

According to state law, all moneys received shall be deposited each day when the accumulated amount of coin and currency exceeds $100 or total collections exceed $500. In any event, all moneys collected shall be deposited at least weekly and intact. Deposit intact means that the total amount collected shall be deposited either on a daily or cumulative basis. The purpose of the state law is to ensure that money is properly safeguarded and deposited.

We tested a sample of deposits made by the Society and noted ten out of twenty-eight deposits were untimely and not in accordance with state law. One collection report totaling $2,133 was deposited March 4, 1982 and included collections from February 19, 1982. This occurred because deposits are decentralized and made by program rather than daily totals.

The money accumulates at the Society for each program until personnel deposit the money into the state treasury system. At this time, the money is available for investment by the Board of Investments. The money retained at the Society is not available for investment and represents a security risk. This results in lost interest for the state of Montana and potential lost receipts. By centralizing deposits, the transferral of money to the Treasurer's Office should be timely and in compliance with state law.

RECOMMENDATION #1

WE RECOMMEND THE SOCIETY:

A. CENTRALIZE THE CASH DEPOSIT FUNCTION FOR ALL PROGRAMS.

B. DEPOSIT COLLECTIONS IN COMPLIANCE WITH STATE LAW.

MERCHANDISING PROGRAM

The Society maintains the merchandising program, an enterprise operation, using the full accrual basis of accounting. An enterprise operation is financially independent and operated similar

to private business enterprises. The merchandising program does not receive general fund support, therefore it is the apparent intent of the Legislature that the program operate on a break-even basis.

The major source of revenue in the program is merchandise sales from the sales counter. These include the sale of frames, prints, photos, and books. Merchandising revenue for fiscal year 1980-81 and 1981-82 was $281,391 and $219,376, respectively.

We evaluated the operation and management of the merchandising program to determine whether the program is breaking even. The merchandising program reported a net loss of ($44,290) for fiscal year 1981-82. We noted inventory balances for both fiscal years were excessive compared to sales volume. Management has not established a policy regarding fixed mark-up on the various items sold through the program. The mark-up varies within product type and is not consistently applied.

Also, the Society does not perform any analytical tests to evaluate demand, sales volume, inventory levels and operating costs. Because management does not periodically review the program operations, significant differences could not be explained in sales and gross profit between the fiscal years audited. Based on our review the Society does not operate the merchandising program on a break-even basis.

Analytical reviews performed periodically provide management with a useful tool in evaluating the activity of an enterprise operation. Management could estimate sales volume, and subsequently reduce costs by reducing inventory levels and purchases. They could also determine whether the program was breaking even.

RECOMMENDATION #2

WE RECOMMEND THE SOCIETY DEVELOP PROCEDURES TO ENSURE THE MERCHANDISING PROGRAM OPERATES ON A BREAK-EVEN BASIS.

MUSEUM SECURITY

Security is an integral part of a museum's daily operation, encompassing business and non-business hours. The Society maintains collections valued at over $30 million. Therefore, the security needs of the Society are significant.

Currently the physical safeguarding of museum collections is provided by the Department of Administration (D of A), General Services. Security guards hired by the D of A, portray the public image of the Society. The positions require the minimum qualification of an eighth grade education without any specific job experience.

The Society does not provide special training for guards assigned security duty at the Society. The guards are unarmed and receive verbal instructions. The Society does not maintain a written policy and procedure manual for security operations, specifically detailing the responsibilities of the guards. A manual has not been developed because the Society does not have the authority to ensure security procedures are implemented by the guards. A formal security manual would provide specific guidance to all employees of the Society.

Society officials express concern because they lack supervisory control over the security guards. The guards are employees

of D of A and are not responsible to the Society. If a theft occurred, the Society would be responsible for the loss.

Personnel at the Society indicated physical security of the collections would be enhanced if the security guards were hired by the Society and responsible to Society officials. D of A and Society officials stated the current needs of the Society can not be addressed by the D of A security staff.

The Society prepared a proposal for the 1983 Legislature requesting an increase of 4.5 full-time equivalent (FTE) employees for security staff. D of A estimates a corresponding decrease of 3.5 FTE in the General Services program. The proposed budget increase for the Society is $79,557 for fiscal year 1983-84.

RECOMMENDATION #3

WE RECOMMEND THE SOCIETY:

A. DEVELOP AND MAINTAIN A FORMAL SECURITY MANUAL.

B. STAFF SECURITY GUARDS TO ENHANCE PHYSICAL SECURITY OF MUSEUM COLLECTIONS.

ACCOUNTING ISSUES

Inter-entity Loans

In two separate instances, the Society failed to record transactions between funds as inter-entity loans.

In the first instance, during fiscal year 1980-81 an employee in the historic preservation program requested a reimbursement for payroll expenditures before the federal grant money was received.

The Society wrote a check in the amount of $1,964 from the merchandising program to cover the payroll expenditure reimbursement. The expenditure was not a valid merchandising transaction. Upon receiving the federal grant money, the Society deposited the money into the merchandising program.

Costs incurred under a federal program are on a cost reimbursement basis. The federal expenditure is reimbursed when cost allowability is determined. The possibility exists that the federal expenditure could be disallowed.

During fiscal year 1981-82 the Society's publication program produced and published the Haynes photo book under a special project. The Society published 4,726 books, at a cost of $35,264, with money borrowed from the Special Revenue Fund and the General Fund.

To properly reflect the two separate transactions, inter-entity loans should have been established and recorded between funds to prevent the possibility of not paying back the loans. In the first situation, the Society did not recognize the loan of $1,964 between the Enterprise Fund and the Agency Fund. In the second situation, the Society did not establish inter-entity loans between the Enterprise Fund and the Special Revenue and General Funds. The Society completed the transactions during the fiscal years, and adjusted the financial statements to reflect the remaining inter-entity loan of $7,072 between the Enterprise Fund and the Special Revenue Fund and the $6,500 loan between the Enterprise Fund and the General Fund.

RECOMMENDATION #4

WE RECOMMEND THE SOCIETY PROPERLY RECORD INTER-ENTITY LOANS.

Unrecorded Activity

To distribute the Haynes book previously mentioned, the Society entered into an agreement with the University of Washington Press in February of 1982. Through catalogs and circulars, the University of Washington Press promotes the book. All net income is divided equally between the Press and the Society. At June 30, 1982 the Society did not recognize $3,090 from the sale of the Haynes book through the University of Washington. As a result, accounts receivable and revenue in the Enterprise Fund are understated by $3,090 in fiscal year 1981-82. The Society also did not recognize an inventory amount of $25,782 for the unsold books.

Society officials stated the activity was not recognized in fiscal year 1981-82 because an accounting entity had not been established. The Society did not want the Haynes book activity combined with activity in any other program.

The Society recognized the activity in fiscal year 1982-83 and adjusted the fiscal year 1981-82 financial statements for the activity.

RECOMMENDATION #5

WE RECOMMEND THE SOCIETY RECOGNIZE ALL ACTIVITY ON THE ACCOUNTING RECORDS.

LEAVE TIME

According to state policy, non-exempt employees are not allowed to accumulate compensatory time. We noted several non-exempt clerical employees earning compensatory time and not taking it off within the same work week.

State policy defines a non-exempt employee as: "an employee in a position not classified as executive, administrative, or professional . . ." The policy further reads:

> "All employees classified as non-exempt as defined above will receive overtime compensation at one and one-half (1½) times their regular hourly wage. Non-exempt employees may not elect to accept compensatory time in lieu of overtime payments . . . , but may be allowed to take time off within the same work week to maintain a 40-hour work week."

Compensatory time earned in excess of 120 hours will be forfeited if not taken within ninety calendar days from the last day of the calendar year in which the excess was accrued. We noted one exempt employee who had a balance of 168 hours at December 31, 1981. It was not until July 23, 1982 that the balance dropped below 120 hours.

To comply with state policy, non-exempt employees should be paid for time worked in excess of 40 hours per week. Hours earned in excess of 120 should be used within 90 days of the next calendar year.

Vacation, sick leave, and compensatory time used should be recorded to the nearest one-half hour. We noted employees taking vacation and sick leave credits in other than one-half hour increments at the Society. One non-exempt employee had a compensatory time balance of 1.18 hours.

RECOMMENDATION #6

WE RECOMMEND THE SOCIETY:

A. GRANT COMPENSATORY TIME ONLY TO ELIGIBLE EMPLOYEES AS DEFINED BY STATE LAW.

B. RECORD COMPENSATORY TIME, VACATION AND SICK LEAVE CREDITS IN ACCORDANCE WITH STATE LAW.

FEDERAL COMPLIANCE

The Society receives a portion of their funding from federal sources. Office of Management and Budget (OMB) "Circular A-102, Attachment P," establishes audit requirements for state and local governments receiving federal assistance. Attachment P provides for independent audits of financial operations, including compliance with certain federal laws and regulations. We performed our audit of the Society in accordance with the standards of OMB "Circular A-102, Attachment P."

We reviewed the major compliance areas in the historic preservation program. Areas reviewed include:

1. matching requirements,
2. internal control and reporting systems,
3. monitoring of subgrantees, and
4. cost allowability.

During our review we noted a compliance problem in indirect cost reimbursement. We determined the effects of noncompliance on program accomplishments and the allowability of costs. The noncompliance issue is discussed in the following section. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

As a result of our review, it is our opinion that the deficiency noted did not significantly affect the successful operation of the program or the allowability of costs in conformity with program regulations.

Indirect Cost Reimbursement

The federal government recognizes and provides for reimbursements to state agencies for indirect costs incurred in the administration of federal grants. Section 17-3-111, MCA, requires that each agency negotiate agreements with the federal government to recover, to the fullest extent possible, indirect costs of administrating federal grants. State policies furnish instructions for agencies to collect and account for these indirect cost reimbursements.

The Society did not seek federal reimbursement for the cost of support services received from other state agencies. The Statewide Cost Allocation Plan for fiscal year 1980-81 identifies indirect costs of $14,666 for services rendered to the Society by other state agencies. For fiscal year 1981-82, $10,123 was allocated. The Society estimated the indirect cost reimbursement not received for fiscal years 1980-81 and 1981-82 to be as much as $15,000 in each year. This problem was noted in our prior audit of the Society.

RECOMMENDATION #7

WE RECOMMEND THE SOCIETY:

A. SEEK APPROVAL OF AN INDIRECT COST PLAN.

B. RECOVER APPLICABLE INDIRECT COSTS IN ACCORDANCE WITH STATE LAW.

INTERNAL CONTROL

We have examined the financial statements of the Society for the two years ended June 30, 1982. We issued our opinion dated August 20, 1982 on these statements. As part of our examination, we made a study and evaluation of the system of control of the Society. Our study evaluated the system as required by generally accepted auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue/receipts;
2. expenditures/payables;
3. payroll;
4. cash;
5. investments;
6. property, plant and equipment;
7. accounts receivable; and
8. inventories.

Through our study, which included the control categories listed above, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Society is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss

from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Society. However, our study disclosed conditions that could result in financial statement errors that would be difficult to detect. These conditions relating to revenue are discussed on pages 3, 4 and 5.

These conditions were considered in determining the nature, timing, and extent of the audit tests of the financial statements and this report does not affect our report on the financial statements.

The preceding four paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

Revenue

We identified the following internal control weaknesses in the revenue area, not disclosed in other report sections, which warrant management attention.

1. Checks received in the mail are not restrictively endorsed upon receipt. One individual opens the mail and transfers it to another who endorses checks received.

2. The Society's reconciliation of the cash receipts log to the Statewide Budgeting and Accounting System's report of receipts was not completed from July 31, 1980 to April 4, 1981. A timely reconciliation reduces the probability of undetected errors.

3. The publication program did not have adequate segregation of duties for the receipt of cash and checks. The same individual records incoming collections, prepares collection reports, and reconciles the amounts back to the collection log. By reassigning duties the Society could remedy this weakness.

4. In the merchandising program, the same individual counts and reconciles the money to the cash register tape.

The Society should restrictively endorse checks upon receipt. As receipts are logged in, a timely reconciliation of the collection log to the accounting records would strengthen controls.

In the publication program, different individuals should be responsible for the receipt, recording, and reconciliation of moneys collected.

In the merchandising program, counting and reconciling the money to the cash register tape should be performed by different individuals.

RECOMMENDATION #8

WE RECOMMEND THE SOCIETY IMPLEMENT PROCEDURES TO CORRECT THE INTERNAL CONTROL WEAKNESSES NOTED ABOVE.

PRIOR AUDIT RECOMMENDATIONS

The Society was audited by our office for the two fiscal years ended June 30, 1980. The report contained eight recommendations. The Society concurred with seven of the recommendations and partially concurred with one. They have implemented or partially implemented seven and did not implement one recommendation. We addressed prior recommendations partially implemented or not implemented on pages 3 and 11.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
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STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial statements of the various funds and account groups of the Montana Historical Society as of and for the two fiscal years ended June 30, 1982, as shown on pages 18 through 24. Our examination was made in accordance with generally accepted auditing standards for governmental units and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the Combined Balance Sheet - All Funds and Accounts Groups and the operating statements on pages 18 through 24 present fairly the financial position of such funds of the Montana Historical Society as of June 30, 1982, and the results of operations and changes in retained earnings/fund balance of such funds for the two fiscal years then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of classifying funds as described in Note 1, have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The

accompanying Schedule of Federal Grant Receipts is presented for additional analysis and disclosure purposes in compliance with "Guidelines for Financial and Compliance Audits of Federally Assisted Programs" and is not a required part of the combined financial statements for the Montana Historical Society. The column on the accompanying financial statements referred to in paragraph one captioned "Total (Memorandum Only)" is not necessary for a fair presentation of the financial statements, but is presented as additional analytical data. The schedule and supplemental information has been subjected to the tests and auditing procedures applied in the examination of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

James H. Gillett, CPA
Deputy Legislative Auditor

August 20, 1982

Approved:

Robert R. Ringwood
Legislative Auditor

MONTANA HISTORICAL SOCIETY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 1982

	GOVERNMENTAL FUND TYPES		PROPRIETARY FUND TYPES			FIDUCIARY FUND TYPE	ACCOUNT GROUP	
	General	Special Revenue	Merchandise	Enterprise Publications	Montana Historical Society Press	Trust and Agency	General Fixed Assets	Totals (Memorandum Only)
ASSETS:								
Cash	$ 95	$262,686	$ 21,562	$ 6,490		$70,228		$361,061
Federal Cost Reimbursement Receivable		12,485				7,003		19,488
Accounts Receivable		1,719	6,977	3,892	$ 3,090			15,678
Inter-Entity Receivable	6,500	7,072	500					14,072
Other Investments (at cost)						18,422		18,422
Merchandise Inventory			95,308	34,334	25,782			155,424
Equipment			20,877	16,905			$169,973	207,755
Accumulated Depreciation			(9,120)	(15,308)				(24,428)
Museum Collections (Note 1)								
Appropriation Authority for Accrued Expenditures	34,364							34,364
Total Assets	$40,959	$283,962	$136,104	$ 46,313	$28,872	$95,653	$169,973	$801,836
LIABILITIES AND FUND EQUITY								
Liabilities								
Inter-Entity Payable					$14,072			$ 14,072
Accounts Payable	$33,564	$ 31,624	$ 11,476	$ 4,489		$ 3,968		85,121
Accrued Expenditures	800	13,084	1,507	516		3,035		18,942
Receipts Collected in Advance		31,044		90,294				121,338
Due to Consolidated Entity	6,595							6,595
Total Liabilities	40,959	75,752	12,983	95,299	14,072	7,003		246,068
Fund Equity								
Fund Balance	-0-	208,210				88,650		296,860
Retained Earnings			122,204	(49,736)	14,800			87,268
Donated Assets			917	750				1,667
Investments in Fixed Assets							$169,973	169,973
Total Fund Equity	-0-	208,210	123,121	(48,986)	14,800	88,650	169,973	555,768
Total Liabilities and Fund Equity	$40,959	$283,962	$136,104	$ 46,313	$28,872	$95,653	$169,973	$801,836

The accompanying notes are an integral part of this financial statement.

MONTANA HISTORICAL SOCIETY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	GENERAL FUND			SPECIAL REVENUE FUNDS			TOTAL (Memorandum Only)		
	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)
REVENUES:									
Investment Earnings				$ 295,367	$276,184	$ (19,183)	$ 295,367	$ 276,184	$ (19,183)
Reimbursements - Libby Dam	$ -0-	$ 5,034	$ 5,034	-0-	5,034	5,034	-0-	10,068	10,068
Sales of Documents, Merchandise & Property				16,300	16,354	54	16,300	16,354	54
Gifts, Bequests & Donations (Private)				185,671	134,927	(50,744)	185,671	134,927	(50,744)
Federal Assistance				151,369	162,457	11,088	151,369	162,457	11,088
Total Revenue	-0-	5,034	5,034	648,707	594,956	(53,751)	648,707	599,990	(48,717)
EXPENDITURES:									
Administration	182,277	174,086	8,191	475,427	254,146	221,281	657,704	428,232	229,472
Library	119,702	118,702	1,000	58,569	32,884	25,685	178,271	151,586	26,685
Museum	180,592	179,123	1,469	240,949	109,432	131,517	421,541	288,555	132,986
Historic Preservation	61,746	61,143	603	71,747	70,294	1,453	133,493	131,437	2,056
Archives	179,640	178,791	849	129,179	59,013	70,166	308,819	237,804	71,015
Education				83,494	52,667	30,827	83,494	52,667	30,827
Total Expenditures	723,957	711,845	12,112	1,059,365	578,436	480,929	1,783,322	1,290,281	493,041
EXCESS OF REVENUES OVER (UNDER) CURRENT EXPENDITURES	(723,957)	(706,811)	17,146	(410,658)	16,520	427,178	(1,134,615)	(690,291)	444,324
Prior Year Adjustments	(13,134)	(13,134)	-0-	(21,414)	(21,414)	-0-	(34,548)	(34,548)	-0-
OTHER FINANCING SOURCES (USES):									
Support From (To) General Fund	772,253	761,606	(10,647)				772,253	761,606	(10,647)
Transfer to:									
MHS Press	-0-	(6,500)	(6,500)				-0-	(6,500)	(6,500)
Publication Program	(35,162)	(35,161)	1				(35,162)	(35,161)	1
Transfer from:									
Fish, Wildlife, & Parks				113,718	113,718	-0-	113,718	113,718	-0-
Merchandising Program (Note 9)				20,000	-0-	(20,000)	20,000	-0-	(20,000)
Transfer of Stock to Trust Accounts				(54,550)	(54,550)	-0-	(54,550)	(54,550)	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	(352,904)	54,274	407,178	(352,904)	54,274	407,178
FUND BALANCE - JULY 1, 1981	-0-	-0-	-0-	153,936	153,936	-0-	153,936	153,936	-0-
FUND BALANCE - JUNE 30, 1982	$ -0-	$ -0-	$ -0-	$ (198,968)	$208,210	$407,178	$ (198,968)	$ 208,210	$407,178

The accompanying notes are an integral part of this financial statement.

MONTANA HISTORICAL SOCIETY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

	GENERAL FUND			SPECIAL REVENUE FUNDS			TOTAL (Memorandum Only)		
	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)
REVENUES:									
Taxes				$ 50,000	$ 12	$ (49,988)	$ 50,000	$ 12	$ (49,988)
Sales of Documents, Merchandise & Property				17,000	16,009	(991)	17,000	16,009	(991)
Gifts, Bequests & Donations (Private)				172,743	109,734	(63,009)	172,743	109,734	(63,009)
Federal Assistance				403,137	234,290	(168,847)	403,137	234,290	(168,847)
Total Revenue	$ -0-	$ -0-	$ -0-	642,880	360,045	(282,835)	642,880	360,045	(282,835)
EXPENDITURES:									
Administration	181,147	173,928	7,219	154,929	115,891	39,038	336,076	289,819	46,257
Library	102,406	102,108	298	77,123	28,255	48,868	179,529	130,363	49,166
Museum	77,001	75,707	1,294	53,250	44,689	8,561	130,251	120,396	9,855
Historic Preservation	51,129	49,023	2,106	109,069	98,732	10,337	160,198	147,755	12,443
Archives	129,756	127,501	2,255	102,678	42,500	60,178	232,434	170,001	62,433
Libby Dam	-0-	-0-	-0-	80,386	50,400	29,986	80,386	50,400	29,986
Total Expenditures	541,439	528,267	13,172	577,435	380,467	196,968	1,118,874	908,734	210,140
EXCESS OF REVENUES OVER (UNDER) CURRENT EXPENDITURES	(541,439)	(528,267)	13,172	65,445	(20,422)	(85,867)	(475,994)	(548,689)	(72,695)
Prior Year Adjustments	(11,305)	(11,305)	-0-	5,843	5,843	-0-	(5,462)	(5,462)	-0-
OTHER FINANCING SOURCES (USES):									
Transfer to Publications Program	(11,320)	(11,287)	33	-0-	-0-	-0-	(11,320)	(11,287)	33
Support From (To) General Fund	564,064	550,859	(13,205)				564,064	550,859	(13,205)
Transfer from:									
Fish, Wildlife, & Parks				44,831	44,831	-0-	44,831	44,831	-0-
Merchandising Program (Note 9)				20,000	20,000	-0-	20,000	20,000	-0-
Donated Stock				33,798	33,798	-0-	33,798	33,798	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	169,917	84,050	(85,867)	169,917	84,050	(85,867)
FUND BALANCE - JULY 1, 1980	-0-	-0-	-0-	69,886	69,886	-0-	69,886	69,886	-0-
FUND BALANCE - JUNE 30, 1981	$ -0-	$ -0-	$ -0-	$239,803	$153,936	$(85,867)	$ 239,803	$153,936	$(85,867)

The accompanying notes are an integral part of this financial statement.

MONTANA HISTORICAL SOCIETY
COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS/FUND BALANCE -
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	PROPRIETARY FUND TYPES			FIDUCIARY FUND TYPE	
	Merchandise	Publications	Montana Historical Society Press	Non-Expendable Trust	Total (Memorandum Only)
OPERATING REVENUES:					
Investment Earnings				$ 4,525	$ 4,525
Sales of Documents, Merchandise & Property	$219,376	$133,037	$24,282		376,695
Grants, Gifts, Bequests, & Donations				39,444	39,444
Total Operating Revenues	219,376	133,037	24,282	43,969	420,664
OPERATING EXPENSES:					
Cost of Goods Sold	136,417	48,277	5,744		190,438
Personal Services	86,677	62,816			149,493
Contracted Services	16,135	20,160			36,295
Supplies & Materials	1,745	806	215		2,766
Communications	4,574	8,343	1,010		13,927
Travel	1,461	1,483	921		3,865
Repair & Maintenance	1,039	527			1,566
Other Expenses	2,288	163	1,592		4,043
Equipment Expensed	91	20			111
Depreciation	1,598	155			1,753
Total Operating Expenses	252,025	142,750	9,482	-0-	404,257
Operating Income (Loss)	(32,649)	(9,713)	14,800	43,969	16,407
NON-OPERATING REVENUES (EXPENSES):					
Rent	(10,353)	(3,695)			(14,048)
Prior Year Adjustments	(1,209)	(83)			(1,292)
Support From General Fund		35,161			35,161
Revolving Cash Adjustment	200				200
Adjustment to Equipment	221	75			296
Loss on Sale of Stocks				(9,869)	(9,869)
Transfer From Special Revenue Fund				54,550	54,550
Total Non-Operating Revenues (Expenses)	(11,141)	31,458	-0-	44,681	64,998
Net Income (Loss) 1982	(43,790)	21,745	14,800	88,650	81,405
RETAINED EARNINGS/FUND BALANCE JULY 1, 1981	165,994	(71,481)	-0-	-0-	94,513
RETAINED EARNINGS/FUND BALANCE JUNE 30, 1982	$122,204	$(49,736)	$14,800	$88,650	$175,918

The accompanying notes are an integral part of this financial statement.

MONTANA HISTORICAL SOCIETY
COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

	PROPRIETARY FUND TYPES		Total (Memorandum Only)
	Merchandise	Publications	
OPERATING REVENUES:			
Sale of Documents, Merchandise, and Property	$281,391	$117,978	$399,369
Total Operating Revenues	281,391	117,978	399,369
OPERATING EXPENSES:			
Costs of Goods Sold	105,222	64,781	170,003
Personal Services	73,940	56,203	130,143
Contracted Services	6,728	12,298	19,026
Supplies and Materials	6,384	689	7,073
Communications	5,267	6,573	11,840
Travel	1,328	801	2,129
Repair and Maintenance	1,251	372	1,623
Other Expenses	2,053	72	2,125
Equipment Expensed	177	136	313
Depreciation	7,892	15,202	23,094
Total Operating Expenses	210,242	157,127	367,369
Operating Income	71,149	(39,149)	32,000
NON-OPERATING REVENUES (EXPENSES):			
Rent	(8,548)	(3,203)	(11,751)
Prior Year Adjustments	3,447	4,543	7,990
Support from General Fund		11,287	11,287
Operating Transfer Out	(20,000)		(20,000)
Adjustment to Equipment	8,576	400	8,976
Loss on Sale of Fixed Assets	(313)	(1)	(314)
Total Non-Operating Revenues (Expenses)	(16,838)	13,026	(3,812)
Net Income (Loss) 1981	54,311	(26,123)	28,188
RETAINED EARNINGS, JULY 1, 1980	111,683	(45,358)	66,325
RETAINED EARNINGS, JUNE 30, 1981	$165,994	$(71,481)	$ 94,513

The accompanying notes are an integral part of this financial statement.

MONTANA HISTORICAL SOCIETY
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	PROPRIETARY FUND TYPES			FIDUCIARY FUND TYPE	
	Merchandise	Publications	Montana Historical Society Press	Non-Expendable Trust	Total (Memorandum Only)
Sources of Working Capital:					
Net Income (Loss) 1982	$(43,790)	$21,745	$14,800	$88,650	$81,405
Items Not Requiring (Providing) Working Capital					
Depreciation	1,598	155			1,753
Total Sources of Working Capital	(42,192)	21,900	14,800	88,650	83,158
Uses of Working Capital:					
Purchase of Equipment	221	75			296
Total Uses of Working Capital	221	75			296
Net Increase (Decrease) in Working Capital	$(42,413)	$21,825	$14,800	$88,650	$82,862
Elements of Net Increase (Decrease) in Working Capital:					
Cash	$ (7,452)	$ 523		$70,228	$63,299
Investments				18,422	18,422
Receivables	6,191	4,384	$ 3,090		13,665
Merchandise Inventory	(39,438)	8,709	25,782		(4,947)
Accounts Payable	(1,460)	(1,507)			(2,967)
Inter-entity Loans Payable			(14,072)		(14,072)
Accrued Expenditures	(254)	(9)			(263)
Receipts Collected in Advance		9,725			9,725
Net Increase (Decrease) in Working Capital	$(42,413)	$21,825	$14,800	$88,650	$82,862

The accompanying notes are an integral part of this financial statement.

MONTANA HISTORICAL SOCIETY
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

	PROPRIETARY FUND TYPES		Total (Memorandum Only)
	Merchandising	Publications	
Sources of Working Capital:			
Net Income (Loss) 1981	$54,311	$(26,123)	$28,188
Items Not Requiring (Providing) Working Capital			
Depreciation	7,892	15,202	23,094
Loss on Sale of Equipment	313	1	314
Total Sources of Working Capital:	62,516	(10,920)	51,596
Uses of Working Capital:			
Purchase of Equipment	8,576	400	8,976
Total Uses of Working Capital	8,576	400	8,976
Net Increase (Decrease) in Working Capital	$53,940	$(11,320)	$42,620
Elements of Net Increase (Decrease) in Working Capital:			
Cash	$19,538	$ 437	$19,975
Receivables	(900)	(4,222)	(5,122)
Merchandise Inventory	34,878	(4,460)	30,418
Accounts Payable	(10,016)	(2,982)	(12,998)
Accrued Expenditures	10,882	16,484	27,366
Receipts Collected in Advance	-0-	(16,577)	(16,577)
Dishonored Checks	(442)	-0-	(442)
Net Increase (Decrease) in Working Capital	$53,940	$(11,320)	$42,620

The accompanying notes are an integral part of this financial statement.

MONTANA HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Years Ended June 30, 1981 and 1982

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS). The state of Montana utilizes the modified accrual basis of accounting. Modified accrual recognizes revenue when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period and are not received at the normal time of receipt. Expenditures are recognized when a valid obligation is incurred.

For the enterprise operations, the Society uses the full accrual basis of accounting.

Basis of Presentation

The accounts of the state of Montana are, by statute, organized into a fund structure set forth in Section 17-2-102 (temporary), MCA, and for fiscal years 1981 and 1982 accounting transactions for the Society were recorded on the basis of that structure. However, the financial statement presentation is made on the basis of section 17-2-102, MCA, (effective July 1, 1983) and in accordance with Governmental Accounting and Financial Reporting Principles, Statement 1.

A synopsis of each fund type and the Society's accounting entities is as follows:

Governmental Fund Types

General Fund - accounts for all financial resources not accounted for in another fund. General fund moneys deposited in the State Treasury are available to defray the costs of state government (legislative appropriation required).

Special Revenue Fund - accounts for proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. These sources include donations and federal grants. Special Revenue funds include the Earmarked Revenue funds, Federal and Private Revenue funds and a Revolving fund (legislative appropriation required).

Proprietary Fund Types

Enterprise Fund - accounts for programs financed and operated in a manner similar to private business enterprises where the governing body has decided: 1) that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Society's Enterprise funds include the merchandising, publications and in 1982, the Haynes collection program.

Fiduciary Fund Types

Trust and Agency Funds - accounts for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include nonexpendable trust funds and agency funds.

Account Groups

General Fixed Asset - reflects the historical cost of fixed assets acquired from all funds other than proprietary funds.

Inventories

Assets are normally not recorded for supplies inventory, but are expensed at the time of acquisition.

Publications inventory, which includes back issues of the Montana magazine, is valued using a FIFO average cost basis.

Merchandising inventory is valued at FIFO for all goods except donated and excessively stocked inventory. Donated inventory is valued at 50 percent of sales price. Excessively stocked inventory is valued on a FIFO three-year supply.

Annual and Sick Leave

Annual leave and sick leave credits are earned by Society employees in accordance with state law. Upon termination, an employee with accumulated annual leave and sick leave credit is compensated at their current salary for 100 percent of annual leave and 25 percent of sick leave. The liability amount associated with unused accumulated vacation and sick leave at June 30, 1982 is maintained on an hourly basis rather than by dollar amount. The monetary liability is calculated when an employee terminates. Employees' accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial statements of the Society. Expenditures for termination pay currently are absorbed in the annual operational costs of the Society.

Museum Collections

The practice followed by many museums is not to record purchased and donated collections in the balance sheet, because of the impracticability of valuing these assets.

Museum collections at the Society include C. M. Russell, Poindexter, Ethnographic, Griffin, History, Haynes, Johns Gun, Original Governor's Mansion and the Permanent Fine Arts Collection. Library and Archives collections consist of books, periodicals, maps, microfiche, photographs, monographs and manuscripts.

The market value of these collections is $30,044,190 at June 30, 1982.

2. EMPLOYEES' RETIREMENT SYSTEM

The Society's employees are covered by the Public Employees' Retirement system (PERS). Under this plan, the Society contributes 6.32 percent of employee's gross wages and the employee contributes 6 percent of his gross wages to PERS. During fiscal years 1980-81 and 1981-82, the Society contributed $35,944 and $41,742, respectively.

The state's policy is to fund accrued pension costs. The last actuarial valuation of PERS at June 30, 1982 determined the system was actuarially sound. The Society's share of the unfunded past service costs and the actuarially computed value of vested benefits was not readily available.

The state of Montana is also a nominee in the deferred compensation program. This plan allows employees to defer income taxes on a portion of their compensation in accordance with state and federal regulations, until a distribution is actually received by the employee. All amounts of compensation deferred under this plan remain the property of the state and participants become general creditors of the state under the terms of the plan; the state is not financially liable for investment losses incurred by the plan.

3. INVESTMENTS

The Society has received resources (such as stock certificates, trusts and cash) subject to donor-imposed restrictions. These restrictions ordinarily are in the form of limitations on the use of principal or income. At June 30, 1982, the Society was in the process of transferring these funds to the Board of Investments for investment in the Montana Common Stock Pool. Thus, the

Society had available cash of $70,228 that was not yet converted to units in the stock pool, and shown as an investment. These were converted during July of 1982.

4. HAYNES PHOTO BOOK

During fiscal year 1982 the Society engaged in a special project to produce and publish a photo book. At June 30, 1982, the Society was in the process of establishing a new enterprise fund to account for the revenues generated from the sale of the book.

5. BUDGETARY REPORTING

The annual appropriations process used for controlling financial operations is set for each fiscal year of a biennium by the legislature. At the end of each fiscal year, the Society's General fund, Special Revenue fund, and Enterprise fund appropriation authority reverts to the fund of original appropriation. The reverted amount may be spent for valid prior year obligations.

Budget amendments represent the authorization to spend funds not available for consideration by the Legislature. They are subject to approval by the Governor.

6. TOTAL COLUMNS ON FINANCIAL STATEMENTS

Total columns on the financial statements are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles; neither is such data comparable to a consolidation.

7. DISCONTINUED PROGRAM

The Libby Dam program was discontinued in fiscal year 1981-82 because the contract with the Army Corps of Engineers was not renewed.

8. CHANGE IN ACCOUNTING

During fiscal year 1981-82 the Society transferred investments (i.e., stock certificates, trusts and cash) to the Board of Investments. As a result, a non-expendable trust fund, classified under the Fiduciary Fund Types, was established for the fiscal year ended June 30, 1982.

9. MERCHANDISING TRANSFER

During each fiscal year, $20,000 of profits generated by the merchandising program is to be transferred to the museum program for artifact and painting conservation.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF FEDERAL GRANT RECEIPTS
FISCAL YEARS ENDING JUNE 30, 1981 and 1982

Program	Grant Number	Grant Award	Receipts in Fiscal Year Ending June 30, 1981	Receipts in Fiscal Year Ending June 30, 1982
National Historic Records & Publications and Records Commission:				
Haynes Photo Collection	79-86	$38,438	$ 20,037	
Historical Records Needs Assessment	81-121	22,872		$ 16,928
National Endowment for the Arts:				
Painting Restoration	02-4431-382	5,000	5,000	
Conservation Russell Artwork	92-2033-354	5,000	1,752	
National Endowment for the Humanities:				
Museum Exhibit Planning	PM-10035-80-0224	17,302	12,477	
Historical Map Cataloging	RC-20082-81-0752	43,025	2,481	33,177
Institute of Museum Services:				
Museum Cataloging	G008103337	33,460		13,907
Museum Assessment	G008103728	600		600
Montana Committee for the Humanities:				
Montana History Conference		11,199		8,912
Montana History Conference		8,982	7,822	
Haynes Traveling Exhibit		5,604	5,604	
Haynes Cataloging Grant		12,941	12,941	
Oral History Project		3,614	2,530	
Museum and Historical Organization		8,494		8,494

MONTANA HISTORICAL SOCIETY
SCHEDULE OF FEDERAL GRANT RECEIPTS
FISCAL YEARS ENDING JUNE 30, 1981 and 1982
(Continued)

Program	Grant Number	Grant Award	Receipts in Fiscal Year Ending June 30, 1981	Receipts in Fiscal Year Ending June 30, 1982
Army Corps of Engineers:				
Libby Dam	DACW 67-80-C-0121		69,624	
Heritage Conservation and Recreation Service:				
Acquisition and Developement	30-08760		2,737	
	30-D6015		16,167	13,833
	30-11296		61,513	3,238
	30-8B94		1,527	
	30-09327		5,590	
	30-09669		8,078	897
	30-09922		4,000	
	30-10243		7,500	
	30-10326		33,117	4,000
	30-10357		48,000	
	30-10878		37	
	30-11033		27,014	
	30-11249			4,840
	30-11291		36,759	
	30-11369		25,152	
	30-11262			74,898
	30-11844		4,950	550
	30-11983			4,288
	30-11984		4,050	450
	30-11986			4,500
	30-11988		1,750	4,850
	30-11991		7,500	5,700
Survey and Planning	30-10837		128,216	63,153
	30-11712		46,629	116,990
TOTAL			$610,554	$384,205

AGENCY RESPONSE

MONTANA HISTORICAL SOCIETY

225 NORTH ROBERTS STREET • (406) 449-2694 • HELENA, MONTANA 59620-9990

December 16, 1982

RECEIVED
DEC 20 1982
MONTANA LEGISLATIVE AUDITOR

Mr. Robert R. Ringwood
Legislative Auditor
State Capitol
Helena, Montana 59620

Dear Mr. Ringwood,

In accordance with your request we submit the following response to recommendations included in the recently completed audit of the two fiscal years ended June 30, 1982 for the Montana Historical Society.

Recommendation #1

We recommend the Society:
A. Centralize the cash deposit function for all programs.
B. Deposit collections in compliance with state laws.

Response

We concur. As of December, the Accounting Technician in the Administration program will do all cash deposits intact on a daily basis. The deposits will be as timely as possible given work load constraints.

Recommendation #2

We recommend the Society develop procedures to insure the Merchandising program operates on a break-even basis.

Response

We concur. The Society has taken steps to reduce the operating expenses of the program. A proposal for the reorganization of the program will be presented to the legislature in January. If the proposal is approved both the size and scope of the program will be reduced for fiscal year 1984.

Recommendation #3

We recommend the Society:
A. Develop and maintain a formal security manual.
B. Staff security guards to enhance physical security of museum collections.

Response

We concur. The implementation of the recommendation depends on legislative approval of our proposed budget modification. If approved, we will begin in July to implement the recommendation.

Recommendation #4

We recommend the Society properly record inter entity loans.

Response

We concur. A procedure reflecting the above recommendation will be developed.

Recommendation #5

We recommend the Society recognize all activity on the accounting records.

Response

We concur. As noted in the narrative this situation was corrected in fiscal year 1982-83.

Recommendation #6

We recommend the Society:
A. Grant compensatory time only to eligible employees as defined by state law.
B. Record compensatory time, vacation and sick leave credits in accordance with state law.

Response

We concur. The Society has developed a policy which will insure that the situation is corrected.

Recommendation #7

We recommend the Society:
A. Seek approval of an indirect cost plan.
B. Recover applicable indirect costs in accordance with state law.

Response

We concur. We will attempt to develop an indirect cost plan.

Recommendation #8

We recommend the Society implement procedures to correct the internal control weaknesses noted above.

Response

We concur. In conjunction with recommendation #1, the procedures for cash handling have been revised to reflect the recommendations.

We would like to take this opportunity to thank you and your staff for the conscientious effort put forth in the completion of our audit report.

Sincerely,

Robert Archibald
Director

RA/dlb